THE National Investor

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TO WHAT EXTENT CAN TRUMP "MAKE AMERICA GREAT AGAIN?"

A slight majority of the American people are optimistic that a no-nonsense (albeit not "politically housebroken") Donald Trump can make use of his business acumen to Make America Great Again. Yet one of the key people to watch will not be the new president, but Federal Reserve Chairwoman Janet Yellen. She might seemingly be asking "What about me!?" above, *as the way in which her bank manages monetary policy may well determine whether Trump is a success, or a failure.*

At week's end, Donald J. Trump will take the oath of office and become the 45th president of the United States of America. Precious few expected this outcome, but this Friday *President* Trump will be a reality; albeit, one that much of America as well as much of the world have a lot of trepidation over!

Not in my lifetime has a president assumed office surrounded by such controversy, confusion, hope *and outright hatred*. Improbably, that has not kept U.S. stocks from setting one new high after another since Election Day, even if--as I write this—that and other aspects of the "Trump Trade" have reversed their post-election extremes. Now--as I have commented in recent days in my e-mails and podcasts--markets are becoming a bit more thoughtful about *exactly* what the incoming Trump Administration and Congress *are going to actually do; and what they won't do*.

One thing seems sure: the only thing predictable about Trump is that he will remain quite *unpredictable*. Following the election and Trump's initial conciliatory speech in the wee hours of the morning, I quipped that it would henceforth be the task of the old guard of the Republican establishment to collectively act as Henry Higgins; the president-elect being Eliza Doolittle, who was desperately in need of being housebroken. Things were working for a while; yet as we approach Friday's inauguration, it's hard to think of someone who Donald J. Trump is NOT newly at odds with.

When it comes to making decisions affecting our portfolios, we will thus remain occasionally handicapped by never knowing what Trump will say--or Tweet--next. As highly-regarded economic and investment pundit Jim Grant of *Grant's Interest Rate Observer* put it on election morning, *"Trump is a hand grenade with the pin pulled; and we don't know where the shrapnel is going to fly."*

An Establishment media that hates this man perhaps even more than it did one Richard Milhous Nixon once upon a time will be of no help in properly defining either the man or the issues he articulates and the policies he pursues. If he has accomplished nothing else, Trump has already recorded some considerable success in redefining political discourse, *period*. And in my opinion it's high time that all Americans shake off the scripted "left versus right" debate that for too long has had us all chasing our tails and arguing over *symptoms.*

The Establishment will still know to do nothing more than attack Trump out right--or more subtly try and "report" on him--by using the old worn out labels that a growing number of Americans have finally become weary of. Most of us, of course, think that it is more good than bad that Donald Trump is a *nationalist*. That means—as HE defines it--that he places first and foremost the interests of this nation, our people and our culture/values. As the media defines it, the "populist" (another nasty word in their vocabulary) Trump and his kindred spirits elsewhere in the world (most notoriously Vladimir Putin) will soon have us all wearing swastikas.

Rather than trying to affix any labels to Trump—a mug's game, because he really is so all over the map on just about everything--**we need to view him as former Reagan Administration Office of Management and Budget Director David Stockman dubbed him early in the campaign: a "disruptor."** I long since signed on to Stockman's view of Trump. Half of what he says is "bats**t crazy." BUT had Hillary Clinton won, the existing Establishment—a neoliberal global economic order combined with its neoconservative global military order—would thus have won.

Instead, Trump offers the *possibility* that some things, at least, might happen that really do benefit America and its people; and where foreign policy is concerned, perhaps the world will end up a safer place if Trump really does rein in the expansionist, warmongering State Department and N.A.T.O. (the latter of which Trump has again deliciously--*and correctly*--called out for the negative and nefarious and, at least, outdated force that it is *today in 2017*.)

We can be optimistic that the new president and some of the people he is surrounding himself with truly do have business sense and *true* free market (as opposed to capitalist; there's a BIG difference!) inclinations in some cases. **Particularly unlike the administration he is replacing, policy looks less likely to be made based on fanciful, utopian theories, position papers, college dissertations and more offered and implemented by policy wonks with virtually no hands-on experience in the real world.** This is a good thing; and it will very likely translate into at least some positive change.

Yet in his seeming pride in making enemies of just about everybody (some justified, some unnecessary) Trump will have legions of people whose quest will be to make The Donald a failed, one-term president. **Whether by accident or design, one of those people most likely to do great harm to a Trump presidency will be Fed Chairwoman Janet Yellen.** Former Presidents Ford, Carter (especially) and Bush, Senior were largely done in by the central bank's policies, none of them succeeding in being reelected. On the flip side, former Presidents Reagan and Clinton *benefited most* from a central bank whose policies *seemed* to render each of them economic geniuses.

In the following pages I will lay out numerous themes and ideas as to how I see things *realistically* unfolding in a Trump Administration.

REAGAN 2.0?

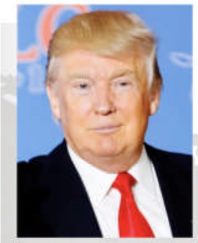
One of the most common themes among Trump supporters generally and in the investment community specifically is that which likens the incoming president to one a generation ago, the late Ronald Reagan. Just like the "Gipper", Trump has likewise been ridiculed as a political neophyte, lightweight and a bumpkin. But just as Reagan ended up gaining widespread respect and admiration--and presided over what has been widely described as a secular boom in the economy and markets--so too do many believe that Donald Trump has both the courage of his convictions and the backbone to keep his many promises where jobs, the economy, etc. are concerned.

Especially by those Americans who still have some capacity for rational thought and are not driven completely by emotion and the Clintonesque "politics of meaning," **Trump has earned some optimism (and not only by those who voted for him) in much the same way Reagan did: by being blunt at times and willing to take on even the entrenched establishment of his own party.** Simply put, people are taking Trump at his word and at face value. As my old friend, the syndicated columnist, former presidential candidate himself (and more in his long career)Pat Buchanan just wrote, "In the rhetoric of Reagan and Trump there is a simplicity and a directness that is familiar to, and appeals to, the men and women out in Middle America, to whom both directed their campaigns." And Middle America—and others—hope all the words and promises of Trump will translate into action. (To read the entirety of Buchanan's column, go to http://buchanan.org/blog/reagan-trump-american-nationalists-126426)

In talking for the most part about style--and then going on to talk about some geopolitical and macro issues--Buchanan didn't have much to say about Reagan's economic record *and how Trump faces a tall—if not mathematically impossible—order as he seeks to repeat it.* So let's start there.

Reagan vs. Trump: the starting position could not be any more different!

	Beginning of era	End of era
Inflation (CPI):	14.8%	1.1%
Interest rate 10Y Treasury bonds:	10.7%	7%
S&P 500 P/E:	7.1x	22.4%
Government debt:	USD 800bn	USD 2,680bn
Government debt/GDP:	30.8%	49.8%



	Beginning of era	End of era
Inflation (CPI):	1.6%	?
Interest rate 10Y Treasury bonds:	2.1%	?
S&P 500 P/E:	20.4x	?
Government debt:	USD 19,800bn	?
Government debt/GDP:	105%	?

Sources: Wikimedia Commons, Grant Williams

As I suggested earlier, Ronald Reagan left office owing a gigantic debt. **In his case *personally*, it was to a fellow by the name of Paul Volcker.** While that former chairman of the Federal Reserve is best remembered as having broken the back of the runaway inflation unleashed by President Nixon and Nixon Fed chair appointee Arthur Burns (but which the hapless Jimmy Carter was blamed by history for) *that was Volcker's lesser accomplishment.*

The *far* greater one was Volcker's enabling of what became popularly (or in some circles, derisively) known as "Reaganomics." In some respects, yes, some income tax relief and other pro-growth measures indeed helped economic growth. But at the end of the day, Ronald Reagan is remembered for presiding over a "boom" *enabled by Volcker reducing interest rates steadily even as the federal deficit exploded* to make all these people look like economic geniuses.

The first big difference, thus, between the economic landscapes inherited by Reagan and now Trump is that Trump will *not* enjoy the kind of a tail wind from monetary policy that Reagan did. Quite the contrary in fact, according to present appearances (even if I continue to think the Fed's "normalizing" efforts won't last too long before "Inflate or Die" reality sets back in.) Further, exponentially growing debt loads in both the public and private sectors have so bogged down economies both here and abroad that even if the best of what Trump has promised takes place, there won't be nearly the impact on the overall economy and growth as what we saw from the Reaganomics growth (and debt) binge.

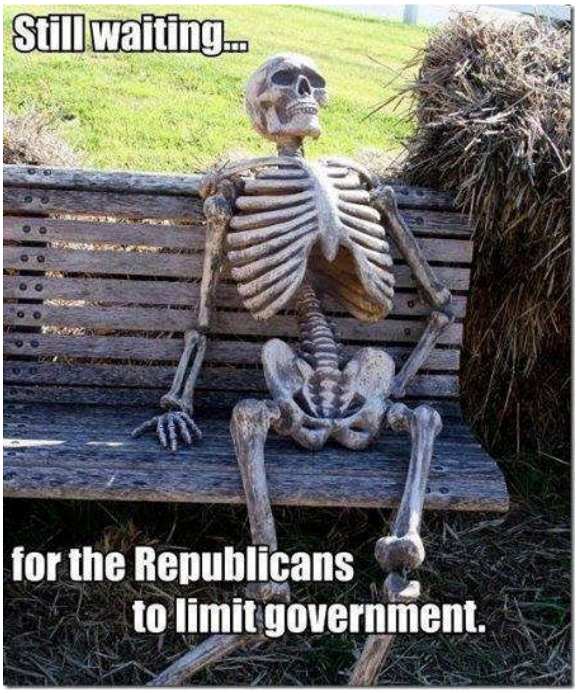
So while the new president is promising massive increases in economic growth, jobs and the rest (so much so that--as I write this--he has already unveiled his 2020 reelection slogan "Keep America Great!") **I have to believe that these lofty goals will not be met.** As some of you have heard me say a few times since Election Day, perhaps the best and most realistic economic prediction has come from Stanley Druckenmiller, the billionaire hedge fund manager and investor. In a post-election interview on *CNBC,* he opined that there is indeed "lots of low-hanging fruit" in the form of regulation reform, some tax relief and some other pro-business measures that *could* pop G.D.P. growth to a 4% clip "for 18 months." *But then, we'll be right back where we started; and with a still-higher debt load and a renewed need for the Fed to put monetary policy back into an aggressively accommodative mode if it hasn't already.*

Consider as well the excellent arguments put forth by Joel Kotkin in a *Forbes* commentary from last Friday, describing the Herculean task Trump faces. While Trump pointed this out during the campaign as part of the reason why voters should choose him, **he now must deal with the reality of an American economy that is far weaker than record-high stock prices suggest.** Here again, I have to believe there simply is not the room to improve the big picture all that much given the starting point of massive debt and the structural changes to debt, entitlements, the work force and much more (which at times the new president seems to simply not understand.) Rhetoric is one thing; mathematics is another.

(Go to http://www.forbes.com/sites/joelkotkin/2017/01/13/heres-what-could-trip-up-trumps-quest-to-make-the-u-s-economy-great-again/#5966537b2411 to read the entirety of Kotkin's piece.)

TRUMP: TEMPERANCE OR A "GIN MILL?"

In one rather ironic sense--and though I doubt he was her favored candidate for president--Donald ("I Love Debt") Trump seems the fulfillment of something Fed Chairwoman Janet Yellen and other central bankers have been pining for for a while. That is, he seems ready to embrace *the kind of massive fiscal stimulus measures* that—for a while—might take the heavy lifting of keeping a debt-laden economy from imploding off the bankers' shoulders.



The program here is part-wealth effect and part-warmed over supply-side economics. If Trump--with slight G.O.P. Congressional majorities--is able to get rid of a lot of regulations and red tape. . .streamline the tax burden overall. . . specifically reform and reduce high corporate taxes. . .and the rest, there *should be* a net positive impact on economic growth. That in turn *should* translate into greater wealth creation--including of equity valuations on Wall Street--that *should* invigorate the old "wealth effect" and lead to greater job creation, consumption, etc.

Yet the initial estimates of "Trumponomics" suggest that all of the above--plus a healthy dollop of infrastructure spending--will **blow up the existing federal debt by yet another $9.7 trillion over the next decade;** something that Sen. Rand Paul (R-KY) recently decried in a speech from the Senate floor. Once more as in the Reagan years, the Republican Party seems poised to prove anew the truism once sarcastically uttered by the late Clarence Darrow, who quipped, "The Republicans are a party that preaches temperance in Ohio while running a gin mill in Washington."

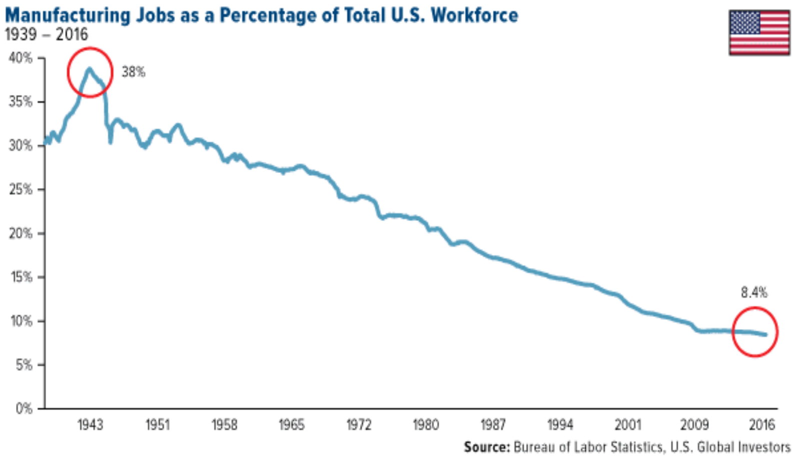
Problem number one is that any benefit from the "wealth effect" *has already happened* thanks to the quantitative easing and Z.I.R.P. policies of the Fed since 2008. Real estate in most places is roughly back to the valuations of the peak in 2007. Stock prices, as measured by the S&P 500, have a bit more than tripled since the early 2009 lows. Relatively little of this came due to legitimate, organic economic growth, rising household incomes and the rest. This was all pretty much due to the Fed. So here too, President Trump is starting out with a stock market valued almost three times richer (measured by price against earnings) than that stock market which Reagan (er, I mean Volcker) had room to push higher a generation ago.

I'll discuss a bit further along the *possibility* that the resurrection of a few more bond market vigilante "zombies" might trash some of these renewed Keynesianism-on-steroids plans. **For now, I have to say that one of the likely drags to any kind of real traction for economic growth is that Trump will do no more than Reagan did in truly reducing the size, power and cost of the federal government.** I would be utterly *delighted* to be proven wrong in this. But I'm one who remembers the equally forceful promises of President Reagan to whittle Washington down to size. He failed.

It will be interesting for all of us to see the ways in which coming budget discussions unfold. There seems a determined minority of conservative members of both the House and Senate who will oppose much of anything that will add to the existing federal debt load. They may not be sold by the old promises that "trickle down" will work *again* if we only run higher deficits for a short time to reap the rewards later. We'll see before too long. The risk from an investment standpoint, of course, is that the present lofty level of stock prices generally will be at greater risk if things are not harmonious between Trump and the Congress.

In the end, the laws of mathematics cannot be changed. As I explain in *Understanding the Game*, when debt and accumulating interest rise exponentially over time, the job of *even servicing* that debt gets harder (forget about ever paying it off save for outright default or longer-term hyperinflation.) And what economic growth *does* exist will be swallowed up and--in the grand picture of things--rendered fairly impotent.

"POPULISM" DISCREDITED?



Trump promised yet again during last week's press conference that "I will be the greatest job producer that God ever created." To be fair, YES he does deserve some credit for several recent announcements from various corporations that they will keep or bring back some jobs to the U.S. of A. *But his claims that he will not only create 25 million jobs over the next decade but that most will be higher-paying jobs in manufacturing and elsewhere are dubious.*

It will take a lot more than nativist, America-first *rhetoric* to accomplish all this. This subject is one of a few where Trump seems totally oblivious to the fact that demographics, technology (including robotics) and more have transformed the traditional labor force *and the very need for labor on the part of employers.* Take his promise to restore jobs to coal miners. This is one of the sillier ones. *Even if* in a Trump Administration coal's share of overall power generation arrests its decline (and that is possible, if we get a higher threshold price for natural gas particularly, which I think is coming) more and more coal will be mined BY MACHINES. That is the trend for most underground extractive industries. Political rhetoric of restoring American jobs and all of that will not change that.

That brings us to Andy Puzder, (right) Trump's present nominee to be Secretary of Labor. An outspoken opponent of a minimum wage as well as a proponent of the fast food industry replacing what remaining workers it does employ with machines, he is one of the least "populist" nominees (and as of this writing is reportedly having second thoughts about whether he wants the job.)

This subset of the economy also underscores the fact that **the deck remains stacked against America's workers.** Corporations will still remain most concerned about the bottom line.

Even if one of the main goals of Trump and Congress alike--a tax "holiday" or some other measure that would result in some of the reported $2 trillion-plus of American corporations' money held overseas being brought back to the U.S.--is realized, *that as well* will primarily serve Wall Street/investors rather than Main Street. Present appearances are that most corporations would *continue* to use such extra dough for dividends and share buy-backs; *not* for hiring new workers, expanding plants, etc.

Yes, to some extent the Trump Administration and Congress may *for a time* bring about some decent job creation (chiefly via infrastructure programs) along with better wages. But just as with some of Trump's broader economic promises, the *words* are likely to be ground up over time by the *reality* of 1. Structural changes in the economy and *2. The fact that the existing capitalist regime will remain unchallenged and essentially unchanged.*

For another take on the first of those, I suggest you take the time to read a recent *Stratfor.com* commentary at https://www.stratfor.com/geopolitical-diary/manufacturing-campaign-promise-cannot-be-kept?utm_source=Twitter&utm_medium=social&utm_campaign=article. Published by this excellent investigative/analytical source just after the election, it is a scholarly yet easy read on the mountain of challenges facing Trump as he seeks to keep his promises where jobs—good-paying, renewed manufacturing ones to boot—are concerned.

It is the second of those points above, however, that most disturbs Yours truly. And it is the key reason why I fear that the very dire prediction for Trump's presidency by bond fund manager Bill Gross could well come true.

Among the legion of media outlets to throw this term around, the *Financial Times* commented in its December 14 issue that Trump will be "making a leap into the *populist* unknown." (*Emphasis* added.) **Here again, we need to be able to distinguish between rhetoric and political labels, and actual policies.** For the said truth here is that--judging from Trump's cabinet choices as well as the overwhelming majority of his economic policy prescriptions—WE ARE GETTING ANYTHING BUT "POPULISM!"

Trump, the supply siders and Club for Growth types on Capitol Hill and the rest are poised as I indicated somewhat earlier **to give us warmed-over helpings of Keynesianism, trickle-down economics and the other tonics of the Reagan Era.** Make no mistake: in a healthy economy and in a society where there is a strong social compact and employers feel duty-bound to do the right thing by their employees, these things do bear some fruit. But as we *already* learned from the Reaganomics era, two things stand in the way. First, rising and choking debt levels mute the benefits of what economic growth *is* generated. And second, we have long since seen the culture take over in this country of corporate profits being the be-all and end-all. So here as well, wealth generated by these policies does NOT go to benefit the population at large as it would if "populism" was really being practiced. This prospect has some believing that—rather than a *real* populism that benefits the masses—we are instead in for another "Gilded Age" under Trump and the many Goldman Sachs alumni he is surrounding himself with (so much for the anti-Goldman "populist" rhetoric of the campaign season; I hope Trump has apologized to the Cruz family!!)

So what I fear we will end up with is a failed, one-term president who will for years to come discredit populism WITHOUT EVER HAVING PURSUED OR PRACTICED IT. Among the things that Janus' Gross argues is much of what I have said above: we really are not getting populism, but ever more Wall Street-friendly supply-side measures. It is most likely that, four years hence (or sooner) disillusionment and anger will be palpable of much of the Middle America that voted for Trump. And "populism" will have been discredited without ever having been implemented; *something which will next have Americans pining to put the neoliberal global economic establishment more overtly back in charge.* (I would take issue a bit with some of Gross' semantics; otherwise his commentary, available at https://www.janus.com/insights/bill-gross-investment-outlook/november is worth the read.)

I really, REALLY hope I am proven wrong in the skepticism (reality?) I am voicing here. Perhaps President Trump really will cut Washington and the meddlesome, obscenely expensive intelligence and war establishment back down to size. I can even dream that--facing the reality and the mathematics I have articulated above--Trump will even come to understand what *social credit* is all about and get off of this pointless kick of "auditing" a Federal Reserve which needs to be *abolished*. The inconvenient truth

I'm not holding my breath. . .and I hope I'm wrong. . .

NEXT ISSUE – I'll continue my rolling "forecast" of what to expect from the incoming Trump Administration; subjects including Europe, the U.S. stock market, a reinvigorated environment for active investing/"stock pickers" like us, a look at health care and energy and MORE!

Don't forget that those of you so inclined can follow my thoughts, focus and all *daily* ! ! !

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NOTE: The preceding are excerpts from the full January 18, 2017 Issue which contains other thematic subjects in addition to a FULL listing of our recommended asset allocations and portfolio positions.

The FULL issue is available ONLY to our paid Members; to become one and receive the complete issue and my recommendations, visit me at http://nationalinvestor.com/subscribe-renew/

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